Annual Report 2010

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Ceapro Inc. develops and uses proprietary extraction technology to produce active ingredients from renewable plant resources. Nature's vitality underlies all of Ceapro's products as the Company fosters natural and sustainable plant materials. We provide "green" and innovative functional ingredients to manufacturers of personal care products, nutraceuticals, and developers of therapeutics.

:: Letter to Shareholders

Dear Fellow Shareholders

2010 has been one of the most exciting years since Ceapro's inception and will certainly be recognized as a landmark period for having fully completed a turn around and implementing a growth strategy which generated record sales and a net profit.

In spite of a still challenging economic environment prevailing in 2010, we remained focused on our objectives and maintained our commitment to quality science to increase sales of existing products, improve existing products, develop new products, and keep manufacturing at a state-of-the-art level, lean and effective.

Our team of dedicated people deployed tremendous effort to transform your Company to a fully integrated biotechnology company with activities ranging from R&D to commercialization.

We are very proud to reiterate the following key accomplishments that will have set the stage for value creation in 2011 and beyond:

- 30% increase in output of finished goods from the plant in 2010 compared to 2009. This translated into record sales of $5,577,000 in 2010 compared to $4,370,000 in 2009.
- Net profit of $501,000 in 2010 compared to a net loss of $69,000 in 2009.
- Completion of an exclusive license and distribution agreement with Oat Cosmetics for the sale of Ceapro's "All Natural" active ingredients in the United Kingdom.
- Completion of a Research Collaboration with the National Research Council of Canada (NRC). Research studies were conducted at the NRC Institute for Nutrisciences and Health (NRC-INH) located in Charlottetown, Prince Edward Island. A press conference was held with Federal Ministers of Science and Technology and Fisheries and Oceans, Honourable Gary Goodyear and Gail Shea respectively, to announce this collaboration.
- Opening of a new lab and hiring new staff at the NRC-INH Industrial Partnership Facility.
- Completion of Year 1 of a 3-year project involving supercritical extraction of active ingredients and downstream purification of avenanthramides.
- Initiation of a research project, with financial assistance of $124,000 from Alberta Ingenuity, to commercialize a novel technology developed at the University of Alberta. Ceapro oat beta glucan is the first active ingredient tested under this project to be produced as a highly soluble and pure powder.
- Successful first year crop multiplication in multiple regions of Canada of in-licensed spearmint variety allowing product development to commence in mid 2011.
- Completion of the development of new formulations and testing for Ceapro's second generation "all natural" product line. Obtained the EcoCert™ Certification.

- Ceapro's newest product CP Sweet Blue Lupin is now in commercial production.
- Ceapro's technology recognized by Canadian Agriculture Adaptation Program (CAAP) which will provide funding to Ceapro up to $1,339,625 of eligible research and development expenditures. All amounts claimed under the CAAP are repayable without interest over eight years beginning in 2013.
- Balance sheet improvement as royalty holders elected to exchange $271,000 of royalty debt for equity and a further $218,000 was paid in cash. Directors announced their intent to exchanged $175,000 of debt into equity. This was finalized in January, 2011.

As mentioned in previous corporate updates, in order to secure the transition to an innovative, sustainable, and profitable biotechnology company, it was important to design and implement a new Research and Development strategy encompassing the formation of new partnerships and collaborations for the development of new and innovative products, novel processes, and for the generation of new data to support our new Marketing and Sales strategy.

Ceapro has then significantly increased its investment in this sector. Year 2010 has undoubtedly seen the largest growth and output from Ceapro's R&D team since the inception of the Company in 1997. Results to date are very encouraging and exciting.

In summary, Ceapro's team has delivered in 2010.

Looking forward, we expect Ceapro to sustain and grow sales and profitability in 2011 while maintaining quality and scientific excellence in all aspects of our business.

We would like to thank our employees for their hard work and dedication. They are Ceapro's biggest asset and they make all of Ceapro's achievements possible.

Finally, we would like to thank our customers and our shareholders for their support and confidence.

We believe Ceapro has never been in a better position to grow and create value.

GILLES R. GAGNON, M.SC., MBA
DIRECTOR AND ACTING CEO

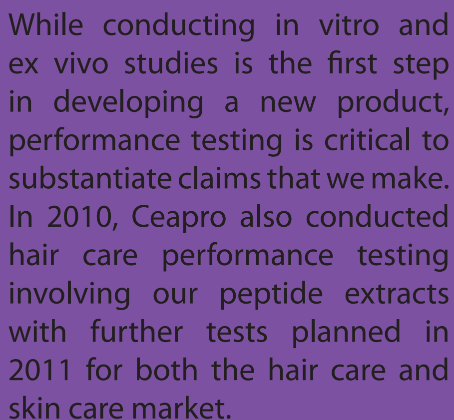
ED TAYLOR, CGA
CHAIRMAN OF THE BOARD

May 17, 2011

Science
The Strength Behind Our Products

Ceapro's primary customers in the global personal care industry have a wide variety of choices of active ingredients to choose from for their product formulations. Active ingredient suppliers must be prepared to answer questions like, "What are the benefits of your product?", "How does it compare to similar products?", and "Do you have the data to support your product claims?". Early in 2010, Ceapro began to increase its commitment to research and development by increasing the level of scientific data to support product sales.

In addition to several research and development projects initiated in Edmonton, Ceapro opened a new lab at the National Research Council - Institute of Nutrisciences and Health (NRC-INH) in Charlottetown, Prince Edward Island. The benefits of this new partnership were immediate and included access to state-of-the-art equipment, access to world class researchers, and new research collaboration partners. Ceapro's first collaborative research agreement predominantly involved investigating anti-allergic activity of one of our core bio-actives, and a second agreement in 2011 will conduct further studies for this indication as well as new wound healing and anti-aging studies. This partnership will allow Ceapro to provide the marketing support for all of its current and future products.



While conducting in vitro and ex vivo studies is the first step in developing a new product, performance testing is critical to substantiate claims that we make. In 2010, Ceapro also conducted hair care performance testing involving our peptide extracts with further tests planned in 2011 for both the hair care and skin care market.

:: Product Improvements
Highly Purified Oat Beta Glucan Microfibrils

During 2010, Ceapro, with the financial assistance of Alberta Ingenuity and the Canadian Agricultural Adaptation Program, established a program to examine the feasibility of using a novel patented drying technology from the University of Alberta for its active ingredients. The first candidate chosen was Ceapro Oat Beta Glucan. This product is currently sold as a preserved 1% liquid solution, with most of the bulk weight being water. Ceapro recognized that substantial benefits and cost savings could result if the oat beta glucan could be produced in higher purity dry form. Ceapro's current oat beta glucan microfibrils are in excess of 97% pure; and because of the large surface area of the dry product, it facilitates the dissolution and dispersion in liquids.

The final product from this process is not only expected to lower our carbon footprint by reducing packaging and shipping costs, it will also have the added advantages of being preservative-free and having a much longer shelf life. The customers that Ceapro serves in the personal care industry are also looking to their active ingredient suppliers to commit to reducing their environmental footprint and this project is perfectly aligned with this reality.

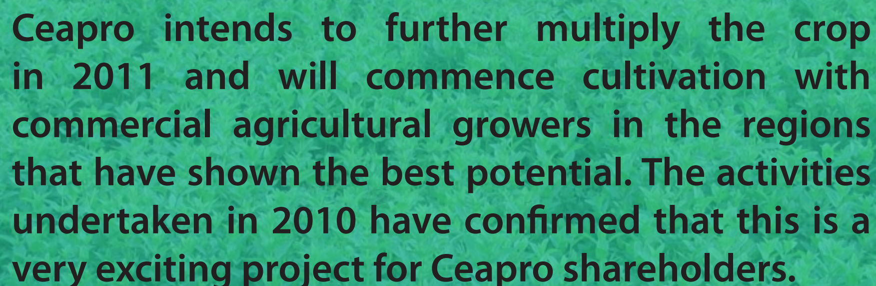
Plans for 2011 include the scale-up of manufacturing to a pilot commercial scale, which could allow for initial sales of this product to commence relatively quickly. A potential new pharmaceutical customer is already testing this product for an existing medical market product.

:: New Products

Bio-Actives From Spearmint

In 2008, Ceapro licensed a unique variety of spearmint from the University of Guelph. The appeal of this special variety is the high level of bio-actives these plants can produce, typically shown to be up to five times greater than other competing plant sources and thereby providing a substantial and sustainable competitive advantage. During 2010, Ceapro initiated a multi-region program across Canada to test grow the plant. Plants were grown in Southern Alberta, Southern Ontario, Northern Ontario, and Prince Edward Island. The results were particularly impressive in Prince Edward Island where the crop propagated and multiplied rapidly, being harvested twice within three months of its initial planting. This natural cultivar is very different from conventional commercial spearmint varieties that are grown for their essential oils and are only harvested once a season.

The high content value of the target active ingredients in this variety was validated, thereby confirming the strong potential to develop a new product from the plant and the potential for agriculture producers to grow a new cash crop. Good results were also found in Northern Ontario. The site in Southern Alberta was flooded out in 2010 and illustrates the need to grow unique plant varieties in more than one location to mitigate the risk of crop disaster. The 2010 crop harvested will provide the raw material for Ceapro to begin product development work in 2011.



Ceapro intends to further multiply the crop in 2011 and will commence cultivation with commercial agricultural growers in the regions that have shown the best potential. The activities undertaken in 2010 have confirmed that this is a very exciting project for Ceapro shareholders.

:: Management's Discussion & Analysis

The MD&A provides commentary on the results of operations for the years ended December 31, 2010 and 2009, the financial position as at December 31, 2010, and the outlook of Ceapro Inc. ("Ceapro") based on information available as at April 18, 2011. The following information should be read in conjunction with the audited consolidated financial statements as at December 31, 2010, and related notes thereto, which are prepared in accordance with Canadian generally accepted accounting principles (Canadian GAAP). All comparative percentages are between the years ended December 31, 2010 and 2009 and all dollar amounts are expressed in Canadian currency, unless otherwise noted. Additional information about Ceapro can be found on SEDAR at www.sedar.com.

FORWARD-LOOKING STATEMENTS

This MD&A offers our assessment of Ceapro's future plans and operations as at April 18, 2011, and contains forward-looking statements. By their nature, forward-looking statements are subject to numerous risks and uncertainties, including those discussed below. You are cautioned that the assumptions used in the preparation of forward-looking information, although considered reasonable at the time of preparation, may prove to be imprecise and, as such, undue reliance should not be placed on forward-looking statements. Actual results, performance, or achievements could differ materially from those expressed in, or implied by, these forward-looking statements. No assurance can be given that any of the events anticipated will transpire or occur, or if any of them do so, what benefits Ceapro will derive from them. The Company disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

VISION, CORE BUSINESS, AND STRATEGY

Ceapro Inc. (Ceapro) is incorporated under the Canada Business Corporations Act; and its wholly-owned subsidiaries, Ceapro Technology Inc., Ceapro Veterinary Products Inc., Ceapro Active Ingredients Inc., and Ceapro BioEnergy Inc., are incorporated under the Alberta Business Corporations Act. Ceapro (P.E.I.) Inc. is a wholly-owned subsidiary incorporated in Prince Edward Island. Ceapro USA Inc. is a wholly-owned subsidiary incorporated in the state of Nevada. Ceapro is a growth stage biotechnology company. Our primary business activities relate to the development and commercialization of natural products for personal care, cosmetic, medical, and animal health industries using proprietary technology and natural, renewable resources.

Our products include:

- A commercial line of natural active ingredients, including *beta glucan, avenanthramides (colloidal oat extract*), *oat powder, oat oil*, *oat peptides,* and *lupin peptides,* which are marketed to the personal care, cosmetic, medical, and animal health industries through our distribution partners and direct sales; and
- Veterinary therapeutic products, including an *oat shampoo*, an *ear cleanser,* and a *dermal complex/conditioner*, which are manufactured and marketed to veterinarians in Japan and Asia, through agreements with Daisen Sangyo Co. Ltd.

Other products and technologies are currently in the research and development or pre-commercial stage. These technologies include:

- *CeaProve®*, a diabetes test meal to screen pre-diabetes and to determine dosage levels for diabetes oral therapy, and to monitor the condition of pre-diabetics;
- *A drug delivery* platform using our *beta glucan* technology to deliver compounds for uses ranging from wound care and therapy, to skin care treatments that reduce the signs of aging;
- An extension to *the active ingredients* product range offering, through new plant extract products;
- A variety of novel manufacturing technologies.

Our vision is to be a global leader in developing and commercializing products for the human and animal health markets through the use of proprietary technology and renewable resources. We act as innovator, advanced processor, and formulator in the development of new products. We deliver our technology to the market through distribution partnerships and direct sales efforts. Our strategic focus is in:

- Increasing sales and expanding markets for our current active ingredients;
- Developing and marketing additional high-value proprietary therapeutic products;
- Developing and improving manufacturing technologies to ensure strong financial performance;
- Advancing new partnerships and strategic alliances to develop new commercial active ingredients and manufacturing technologies.

As a knowledge-based enterprise, we will also expand and strengthen our patent portfolio and build the necessary manufacturing infrastructure to become a global technology company.

Our business growth depends on our ability to access global markets through distribution partnerships and direct sales. Our marketing strategy emphasizes providing technical support to our distributors and their customers and generating direct sales to maximize the value of our technology and product utilization. Our vision and business strategy are supported by our commitment to the following core values:

- Adding value to all aspects of our business;
- Enhancing the health of humans and animals;
- Discovering, extracting, and commercializing new, natural ingredients;
- Producing the highest quality work possible in products, science, and business; and
- Developing personnel through guidance, opportunities, and encouragement.

To support these objectives, we believe we have strong intellectual and human capital resources and we are developing a strong base of partnerships and strategic alliances to exploit our technology. The current economic environment provides challenges in obtaining financial resources to fully exploit opportunities. To fund our operations, Ceapro relies upon revenues primarily generated from the sale of active ingredients, and the proceeds of public and private offerings of equity securities, debentures, grants, and other investment offerings.

RISKS AND UNCERTAINTIES

Biotechnology companies are subject to a number of risks and uncertainties inherent in the development of any new technology. General business risks include: uncertainty in product development and related clinical trials and validation studies; the regulatory environment, for example, delays or denial of approvals to market our products; the impact of technological change and competing technologies; the ability to protect and enforce our patent portfolio and intellectual property assets; the availability of capital to finance continued and new product development; and the ability to secure strategic partners for late stage development, marketing, and distribution of our products. To the extent possible, we pursue and implement strategies to reduce or mitigate the risks associated with our business.

The Company's consolidated financial statements for the year ended December 31, 2010 have been prepared on a going concern basis, which assumes that the Company will continue in operation for the foreseeable future and accordingly will be able to realize its assets and discharge liabilities in the normal course of operations. Since inception, the Company has accumulated net losses, generated inconsistent operating cash flow, and has not yet achieved consistent profitability. During the current year, the Company demonstrated that it has reached the critical mass to operate profitably and generate funds to carry out its business vision. The Company has relied on the proceeds of public and private offerings of equity securities and debentures, debt, and other income offerings to support the Company's operations. The Company's ability to continue as a going concern is dependent on obtaining additional financial capital, maintaining profitability, and generating positive cash flow. While there can be no assurance that the Company will be able to access capital when needed, achieve consistent profitability, or generate sufficient cash flow, the Company

believes it has accomplished these goals in 2010 as evidenced by improvements in working capital and shareholder's deficiency.

The consolidated financial statements as at December 31, 2010 do not reflect the adjustments that might be necessary to the carrying amount of reported assets, liabilities, and revenues and expenses, and the balance sheet classification used if the Company were unable to continue operations. Such adjustments could be material.

The Company has exposure to credit, liquidity, and market risk as follows:

A) CREDIT RISK:

The Company makes sales to customers that are well-established and well-financed within their respective industries. There is always a risk relating to the financial stability of customers and their ability to pay, but management views this risk as minimal. Approximately 81% of accounts receivable are due from three customers at December 31, 2010 and all accounts receivable are current. The Company mitigates its exposure to credit risk on its cash balances by maintaining its bank accounts with a Canadian Chartered Bank. The Company's maximum exposure to credit risk on its cash and accounts receivable is the carrying value of these items at December 31, 2010, a total of $757,052.

B) LIQUIDITY RISK:

Liquidity risk relates to the risk that the Company will encounter difficulty in meeting its financial obligations. The long-term debt matures in January 2013. It is the intention of the Company that refinancing will be negotiated at that time should it be required. The Company may be exposed to liquidity risks if it is unable to collect its trade accounts receivable balances in a timely manner, which could in turn impact the Company's long-term ability to meet commitments under its current facilities. Royalties are in arrears as they have only been paid partially in cash since the second quarter of 2008 due to the limited financial resources of the Company. In order to manage this liquidity risk, the Company regularly reviews its aged accounts receivable listing to ensure prompt collections. The Company regularly reviews its cash availability and whenever conditions permit, the excess cash is deposited in short-term interest bearing instruments to generate revenue while maintaining liquidity. There is no assurance that the Company will obtain sufficient funding to execute its strategic business plan.

Cash outflows related to financial liabilities are outlined in the table below.

	0 - 1 YEAR	1 - 3 YEARS	4 - 5 YEARS	TOTAL
Accounts payable and accrued liabilities	$ 862,163	$ –	$ –	$ 862,163
Long-term debt, including interest	208,613	1,135,148	–	1,343,761
Royalties payable	378,051	–	–	378,051
Convertible debentures including interest	540,000	–	–	540,000
Employee future benefit obligation	–	–	184,037	184,037
Repayable research funding	12,500	37,500	–	50,000
Total	**$ 2,001,327**	**$ 1,172,648**	**$ 184,037**	**$ 3,358,012**

C) MARKET RISK:

Market risk is comprised of interest rate risk and foreign currency risk. The Company's exposure to market risk is as follows:

i) Foreign currency risk

Foreign currency risk arises from the fluctuations in foreign exchange rates and the degree of volatility of these rates relative to the Canadian dollar.

The Company is exposed to foreign currency fluctuations because a substantial portion of sales are denominated in U.S. dollars. A one percent change in the Canadian/U.S. dollar exchange rate will impact revenues by approximately $54,500 annually based upon 2010 U.S. dollar sales of $5,450,000. The Company does purchase some materials and services in U.S. dollars and to a very minor extent in Euros. This amount will vary by product sold.

The following table summarizes the impact of a 1% change in the foreign exchange rates of the Canadian dollar against the US dollar (USD) on the financial assets and liabilities of the Company.

	CARRYING AMOUNT (USD)	FOREIGN EXCHANGE RISK (USD)	
		-1% EARNINGS & EQUITY	+1% EARNINGS & EQUITY
Financial assets			
Accounts receivable	$ 535,729	$ 5,357	$ (5,357)
Financial Liabilities			
Accounts payable and accrued liabilities	$ 46,159	$ (462)	$ 462
Total increase (decrease)		$ 4,895	$ (4,895)

The carrying amount of accounts receivable and accounts payable and accrued liabilities in USD represents the Company's exposure at December 31, 2010.

ii) Interest rate

The Company has minimal interest risk because its long-term debt is a fixed rate of 5.49%. However, in the event of a default, the rate would increase to 7.49% and result in an increase in the required monthly principal and interest payment by $1,541.

Ceapro's share price is subject to equity market price risk, which may result in significant speculation and volatility of trading due to the uncertainty inherent in the Company's business and the technology industry. There is a risk that future issuance of common shares may result in material dilution of share value, which may lead to further decline in share price. The expectations of securities analysts and major investors about our financial or scientific results, the timing of such results, and future prospects, could also have a significant effect on the future trading price of Ceapro's shares.

A variety of factors will affect Ceapro's future growth and operating results, including the strength and demand for the Company's products, the extent of competition in our markets, the ability to recruit and retain qualified personnel, and its ability to raise capital.

Ceapro's financial statements are prepared within a framework of Canadian GAAP selected by management and approved by the Board of Directors. The assets, liabilities, revenues, and expenses reported in the consolidated financial statements depend to varying degrees on estimates made by management. An estimate is considered a critical accounting estimate if it requires management to make assumptions about matters that are highly uncertain, and if different estimates that could have been used would have a material impact. The significant areas requiring the use of management estimates relate to provisions made for inventory valuation, amortization of property and equipment, the assumptions used in determining stock-based compensation, the discount rate used in determining the employee future benefits obligation, and the interest rate used to value convertible debentures. These estimates are based on historical experience and reflect certain assumptions about the future that we believe to be both reasonable and conservative. Actual results could differ from those estimates. Ceapro continually evaluates the estimates and assumptions.

D) PEOPLE AND PROCESS RISK:

i) Loss of key personnel

Ceapro relies on certain key employees whose skills and knowledge are critical to maintaining the Company's success. Ceapro has procedures in place to identify and retain key employees and always attempts to be competitive with compensation and working conditions.

ii) Interruption of raw material supply

Interruption of key raw materials could significantly impact operations and our financial position. Interruption of supply could arise from weather related crop failures, or from market shortages. Ceapro attempts to purchase key raw materials well in advance of their anticipated use.

iii) Environmental issues

Violations of safety, health, and environmental regulations could limit operations and expose the Company to liability, cost, and reputational impact. In addition to maintaining compliance with national and provincial standards, Ceapro maintains internal safety and health programs.

iv) Regulatory compliance

As a natural extract producer, Ceapro is subject to various regulations; and violation of these could limit markets into which we can sell. Ceapro has introduced a range of procedures which will ensure that Ceapro is well prepared for new regulations and requirements that may be required.

FUTURE ACCOUNTING PRONOUNCEMENTS

IFRS

In 2006, Canada's Accounting Standards Board ("AcSB") ratified a strategic plan that would result in International Financial Reporting Standards ("IFRS") replacing Canadian GAAP for publicly accountable entities. In February 2008, the AcSB confirmed January 1, 2011 as the date that Canadian public entities will be required to start reporting under IFRS. Comparative financial information for 2010 will be required when companies begin reporting 2011 results under IFRS.

The Company will apply accounting policies consistent with IFRS beginning with its interim financial statements for the quarter ended March 31, 2011. Interim and annual financial statements will include comparative 2010 financial statements, adjusted to comply with IFRS.

The adoption of IFRS will result in some changes to the Company's significant accounting policies that are applied in the recognition, measurement, and disclosure of balances and transactions in its financial statements.

The Company has not yet determined the full effect of adopting IFRS on its financial statements and is still considering additional exemptions available. Included below are highlights of the areas that are expected to result in a change to the Company's reported amounts under Canadian GAAP.

The Company has made a detailed evaluation of accounting policies and assessment of IFRS 1 *First-time Adoption of International Financial Reporting Standards* and determined choices under this standard. The Company has chosen the following optional exemptions under this standard:

i) Employee benefit

The Company intends to disclose the amounts required under IAS 19 Employee Benefits as the amounts are determined for each accounting period prospectively from the transition date;

ii) Share-based payments

The Company has elected not to apply IFRS 2 Share-based payments to equity instruments granted after November 7, 2002 that had vested by the transition date.

The accounting policies the Company expects to apply and the estimated possible impact on financial statements under the following IFRS standards are detailed below:

IFRS 2 *Share-based Payments*

The Company will be required to estimate forfeitures on issuance rather than being recorded when incurred under Canadian GAAP. This is not expected to have a material impact on the Company's financial statements.

IAS 16 *Property and Equipment*

The Company will adopt the cost model for property and equipment for measurement after initial recognition. This is expected to have no impact on the Company's financial statements.

IAS 39 *Financial Instruments Recognition and Measurement*

The Company is required to adopt this standard. The Company is currently assessing the impact of this standard.

IAS 37 *Provisions, Contingent Liabilities, and Contingent Assets*

The Company will be adopting this standard and is currently assessing the impact this standard will have on provisions recognized for its royalty obligations.

IAS 12 *Income Taxes*

The Company will recognize a deferred tax liability for the equity component of convertible debentures offset by a deferred tax asset on previously unrecognized tax assets of the same amount. This is expected to have no material impact on the Company's financial statements.

In general, the Company believes it is on schedule to make the changes required for IFRS reporting in 2011. The adoption of IFRS is not expected to impact other daily business activities.

RESULTS OF OPERATIONS – YEARS ENDED DECEMBER 31, 2010, 2009, AND 2008

CONSOLIDATED INCOME STATEMENT

$000S EXCEPT PER SHARE DATA	**2010**	**%**	2009	%	2008	%
Total revenues	**5,577**	**100%**	4,370	100%	4,228	100%
Cost of goods sold	**(3,042)**	**55%**	(2,252)	52%	(2,942)	70%
Gross margin	**2,535**	**45%**	2,118	48%	1,286	30%
General and administration expenses	**(1,237)**	**22%**	(1,424)	33%	(1,689)	40%
Royalties	**(60)**	**1%**	(251)	6%	(402)	10%
Selling and marketing	**(70)**	**1%**	(184)	4%	(385)	9%
Amortization	**(37)**	**1%**	(45)	1%	(35)	1%
Interest and accretion expenses	**(138)**	**2%**	(77)	2%	(84)	2%
Income (loss) from operations	**993**	**18%**	137	3%	(1,309)	– 31%
Research and development expenses	**(765)**	**14%**	(578)	13%	(897)	21%
Write off of property and equipment	**(12)**	**0%**	–	0%	–	0%
Other income (loss)	**(30)**	**1%**	(55)	1%	73	2%
Income (loss) before SGGF legal fees recovery (expense) and income tax	**186**	**3%**	(496)	– 11%	(2,133)	– 50%
SGGF legal fee recovery (expense)	**315**	**6%**	426	10%	(1,466)	35%
Income before tax	**501**	**9%**	(69)	– 2%	(3,599)	– 85%
Income tax	**–**		–		–	
Net income	**501**	**9%**	(69)	– 2%	(3,599)	– 85%
Basic net income (loss) per common share	**0.01**		(0.00)		(0.08)	
Diluted net income (loss) per common share	**0.01**		(0.00)		(0.08)	
Total assets	**2,820**		2,771		3,287	
Total long-term financial liabilities	**1,445**		2,025		1,770	

Revenue. The Company's revenue has increased by 28%, to $5,577,000 from $4,370,000 in 2010.

Cost of Goods Sold. Cost of Goods Sold increased by 35% to $3,042,000 from $2,252,000.

Gross margin. Gross margin increased by $417,000 or 20% to $2,535,000 from $2,118,000.

The sales of active ingredients to the personal care industry increased by $1,513,000 due to higher sales volumes for most products offset partially by a strengthening Canadian dollar versus the US dollar. There has been a decrease of $306,000 in sales to the animal health industry segment in comparison to 2009.

Income from operations was $993,000 compared to $137,000 in 2009 largely due to higher product sales and lower operating expenses and royalties. Research and development costs increased $187,000 due primarily to expenditures undertaken as a result of new research projects.

There was a decrease in general and administration expenses of $187,000 and lower sales and marketing costs in the amount of $114,000.

Net income in 2010 of $501,000 includes the reversal of a legal fee accrual in the amount of $315,000 previously recorded in 2008. There was a net loss of ($69,000) in 2009 including the reversal of $426,000 in disputed legal fees accrued in 2008.

The fourth quarter revenues of $1,696,000 represent a sharp increase of $1,301,000 from 2009 fourth quarter revenues of $395,000. Income from operations in the fourth quarter was $488,000 compared with loss ($443,000) in 2009, and net income for the fourth quarter was $198,000 in comparison with net loss in the fourth quarter of 2009 ($634,000) as a result of higher sales. There was a decrease in general and administration expenses of $17,000, decrease in sales and marketing of $52,000, and increase in research and development costs of $65,000 during the fourth quarter. There was a fourth quarter foreign exchange loss of $24,000 and other expenses of $2,000 in the current year, while in the same period in 2009, there was a foreign exchange loss of $4,000 and other expenses of $1,000.

REVENUE

$000S	**2010**	2009	CHANGE
Total revenues	**5,577**	4,370	28%

PRODUCT SALES

In 2010, total sales rose $1,207,000 or 28% as a result of increased sales of active ingredients in the personal care industry of $1,513,000, offset partially by decreased sales to the animal health industry segment of $306,000. The timing of animal health orders varies by quarter. Total sales were negatively impacted by a stronger Canadian dollar versus the U.S. dollar.

Sales in the fourth quarter 2010 increased sharply to $1,696,000 as a result of strong demand from the personal care sector for Ceapro active ingredients as well as a sale to the animal health sector. This represents the highest fourth quarter revenue in the history of the Company.

Sales of veterinary therapeutic products in 2010 and 2009 were represented by the sale of pre-mixes containing Ceapro active ingredients. Sales in the fourth quarter were $160,000 versus nil in 2009.

EXPENSES

COST OF GOODS SOLD AND GROSS MARGINS

$000S	**2010**	2009	CHANGE
Sales	**5,577**	4,370	
Cost of goods sold	**3,042**	2,252	
Gross margin	**2,535**	2,118	20%
Gross margin %	**45%**	48%	

Cost of goods sold is comprised of the direct raw materials required for the specific formulation of products, as well as direct labour, quality assurance and control, packaging, transportation costs, plant costs, and amortization on plant and equipment assets. Aside from labour, rent, quality control related expenses, overhead, and property and equipment amortization, the majority of costs are variable in relation to the volume of product produced or shipped.

For 2010, the gross margin increased by 20% in dollar terms; but the percentage decreased to 45% from 48%, primarily due to the strengthening of the Canadian dollar versus US dollar that negatively impacted sales, the write off of $99,000 of oat oil, and general increases for plant costs.

The fourth quarter gross margin of $861,000 and gross margin percentage of 51% in 2010 increased significantly from negative gross margin ($10,000) in 2009 due to higher sales volumes and resulting higher economies of scale of manufacturing fixed costs.

GENERAL AND ADMINISTRATION

$000S	**2010**	2009	CHANGE
Salaries and benefits	**349**	386	
Consulting	**188**	181	
Board of Directors compensation	**176**	190	
Investor relations	**44**	113	
Insurance	**114**	114	
Accounting and audit fees	**90**	75	
Legal	**54**	80	
Rent	**87**	67	
Other	**135**	218	
Total general and administration expenses	**1,237**	1,424	– 13%

General and administration expense for 2010 decreased by $187,000 or 13%. Salaries decreased as a result of lower staff levels during the year. Directors' compensation decreased due to lower stock based compensation expenses. Accounting and audit fees increased during the year for the IFRS conversion project. Investor relations decreased as the Company has not engaged investor relations consultants in 2010 as they did in 2009. Most other costs decreased, which reflects efforts by the Company to reduce expenditures and focus on core areas of business.

General and administration costs for the fourth quarter decreased $17,000 from 2009 for the same reasons that full year expenses decreased.

SALES AND MARKETING

$000S	**2010**	2009	Change
Salaries and benefits	**–**	83	
Courses & Conferences	**5**	26	
Travel	**30**	29	
Other	**35**	46	
Total sales and marketing	**70**	184	– 62%

Sales and marketing expenses in 2010 declined by 62% largely due to staff reductions for marketing activities. There was a decrease in conference expenses associated with market expansion and production of corporate promotional material in 2010.

The fourth quarter of 2010 showed a reduction in expenditures of 72% versus 2009 for the same reasons discussed for the whole year.

Sales and marketing expenses decreased in the fourth quarter of 2010 by $52,000 versus 2009 as the Company made a decision to evaluate different marketing strategies in 2009 and therefore incurred significantly less cost in 2010 when it did not incur these costs. Most of these efforts in 2010 involved attending tradeshows focused on opportunities to target personal care companies with specific needs and subsequent follow-up visits with these companies.

The Company is currently reviewing new marketing initiatives for 2011.

ROYALTIES

$000S	**2010**	2009	CHANGE
Royalty interest units	**114**	301	− 62%
Less: recognition of deferred royalty revenue	**(54)**	(50)	
Total royalty expenses	**60**	251	− 76%

As at December 31, 2010, royalty investors received royalties equal to 2.285% (2009 – 2.285%) of revenues from product sales and royalty, license, and product development fees of active ingredients, veterinary therapeutic products, and *CeaProve*® to a maximum of two times the amount invested. AVAC Ltd. receives royalties of up to 2.5% to 5% of revenues from eligible product sales, to a maximum of one and a half to twice the amount invested. Royalty expense will vary directly with fluctuations in eligible product sales, royalty, license and product development fees, product sales mix, and any new royalty interest offerings that may be completed. Royalty expense decreased as two royalties totaling 8.31% were fully accrued in 2009.

The Company recognizes deferred royalty revenue for royalty interest units issued in 2005 at a rate of one half times the amount of the royalty interest expense. Detailed royalty disclosure is provided in note 7 of the consolidated financial statements.

During 2010, the Company settled royalty obligations in the amount of $270,560 through the issuance of 3,006,224 common shares of Ceapro Inc. During the fourth quarter, the Company further repaid a total of $218,000 with cash toward the royalty obligation leaving an obligation of $378,000 at December 31, 2010.

Royalty expense in the fourth quarter was $21,000, an increase from $16,000 in the fourth quarter of 2009 as a result of higher eligible product sales.

INTEREST & AMORTIZATION EXPENSES

$000S	**2010**	2009	CHANGE
Interest on long-term debt	**70**	77	
Interest on convertible debentures	**41**	–	
Accretion on convertible debentures	**27**	–	
Total interest expenses	**138**	77	79%
Amortization	**37**	45	− 17%

Interest on long-term debt declined $7,000 as a result of a lower principal balance of long-term debt from the previous year. Interest expense on long-term debt decreased $2,000 in the fourth quarter of 2010 from 2009 for the same reasons.

On December 31, 2009, the Company issued secured convertible debentures for cash of $500,000. The debentures bear interest at 8% per annum, mature on December 31, 2011, and are convertible at any time at a price of $0.10 per common share at the option of the holder. The debentures may be redeemed at the option of the Company upon giving notice of 60 days. In 2010, the Company recorded interest expense on convertible debentures in the amount of $41,000 and accretion of $27,000.

For the year ended December 31, 2010, the total amortization of $291,000 (2009 – $357,000) was allocated as follows: $37,000 (2009 – $45,000) to amortization expense, $4,000 to inventory (2009 – $23,000), and $250,000 (2009 – $289,000) to cost of goods sold.

OTHER INCOME (EXPENSES)

RESEARCH AND PRODUCT DEVELOPMENT

$000S	**2010**	2009	CHANGE
Salaries and benefits	**371**	400	
Regulatory and patents	**128**	115	
Other	**160**	(13)	
	659	502	31%
Product development – CeaProve®	**106**	75	42%
Total research and product development expenditures	**765**	577	33%

Research and product development expenses in 2010 increased by 31% from 2009 expenses as a result of new research and development projects commenced in 2010 and higher costs for patents. There was an increase of 42% in costs for CeaProve® related to contract manufacturing of the product. As a result, total research and product development expenditures increased by 33%, mainly to support the commercialization of new products.

For the fourth quarter, research and development expenses increased 49% while total research and development, including CeaProve®, increased $65,000 or 35% for the same reasons discussed for the year.

OTHER INCOME (EXPENSES)

$000S	**2010**	2009	CHANGE
Interest and miscellaneous income (loss)	**(2)**	13	
Foreign exchanges gain (loss)	**(28)**	(68)	
Total other income (expenses)	**(30)**	(55)	– 46%

Other income in 2010 is comprised primarily of $28,000 of foreign exchange loss and $2,000 of miscellaneous expenses compared to foreign exchange loss of $68,000 in 2009, mostly due to the strengthening of the Canadian dollar versus the US dollar offset by $13,000 in other income. The foreign exchange loss in the fourth quarter of 2010 was $24,000 and other expenses were $2,000 compared to a foreign exchange loss of $4,000 and other expenses of $1,000 in 2009.

QUARTERLY INFORMATION

The following selected financial information is derived from Ceapro's unaudited quarterly financial statements for each of the last eight quarters, all of which cover periods of three months.

	2010				2009			
$000S EXCEPT PER SHARE DATA	**Q4**	**Q3**	**Q2**	**Q1**	Q4	Q3	Q2	Q1
Total revenues	**1,696**	**1,708**	**1,018**	**1,155**	395	1,261	1,212	1,502
Net income (loss)	**198**	**115**	**237**	**(49)**	(634)	(4)	466	103
Basic net income (loss) per common share	**0.004**	**0.002**	**0.005**	**(0.001)**	(0.012)	(0.000)	0.010	0.002
Diluted net income (loss) per common share	**0.004**	**0.002**	**0.005**	**(0.001)**	(0.012)	(0.000)	0.010	0.002

Ceapro's quarterly sales and results primarily fluctuate due to variations in the timing of customer orders, different product mixes, and the capacity to manufacture products.

LIQUIDITY AND CAPITAL RESOURCES

CAPITAL EMPLOYED

$000S	**2010**	2009
Non-current assets	**1,713**	1,925
Current assets	**1,107**	846
Current liabilities	**(1,927)**	(2,119)
Total assets less current liabilities	**893**	652
Non-current liabilities	**1,445**	2,025
Shareholders' equity	**(552)**	(1,373)
Total capital employed	**893**	652

Non-current assets decreased $212,000 due to a write-off of property and equipment in the amount of $12,000 and an amortization provision of $291,000 offset by the acquisition of $91,000 of property and equipment.

Trade and other receivables including deposits and prepaid expenses were higher than 2009 by $427,000, and cash increased over 2009 by $71,000. Inventories were lower by $237,000.

Convertible debentures in the amount of $468,000 were reclassified in 2010 from non-current to current liabilities as the debentures mature on December 31, 2011. It was presented under non-current liabilities in the amount of $440,000 in 2009.

Excluding the reclassification of convertible debentures described above, current liabilities totaling $1,927,000 decreased by the net amount of $660,000 ((1,927 - 468) – 2,559). This was due to an increase in trade payables and accrued liabilities of $15,000, a reversal of an accrual in the amount of $315,000 created in 2008 for legal fees, and a net royalty payable reduction of $380,000 due to repayments of $489,000 through cash $218,000 and shares $271,000 offset by new accrued portion of $108,000. Current portion of long-term debt was increased by $8,000, and current portion of repayable research funding was recognized in 2010 in the amount of $12,000.

Excluding the reclassification of convertible debentures described above, non-current liabilities totaling $1,445,000 decreased by the net amount of $139,000 due to principal repayment of financial liabilities in the amount of $147,000 and recognition of deferred royalty revenue in the amount of 54,000 offset by an additional accrued employee future benefit obligation of $23,000, and the non-current portion of repayable research funding recognized in 2010 in the amount of $38,000.

Shareholders' deficiency of $552,000 at December 31, 2010 improved from a shareholders' deficiency of $1,373,000 at December 31, 2009 due to increases in share capital of $292,000 from the conversion of debt, the recognition of stock-based compensation in contributed surplus of $28,000, and net income of $501,000.

NET DEBT

$000S	**2010**	2009
Cash and cash equivalents	**187**	116
Current financial liabilities*	**1,004**	897
Non-current financial liabilities*	**1,119**	1,667
Total financial liabilities	**2,123**	2,564
Net Debt	**1,936**	2,448

* *Includes long-term debt, current portion of long-term debt, convertible debentures, repayable research funding, current portion of repayable research funding, and current portion of royalties payable.*

The Company's net debt decreased by $512,000 or 21% due to a long-term debt repayment in the amount of $139,000, and cash increasing by $71,000 partially offset by convertible debentures accretion in the amount of $28,000, and receiving repayable research funding of $50,000. Royalties were repaid by a total of $488,000 while new royalty obligations of $108,000 were accrued.

SOURCES AND USES OF CASH

The following table outlines our sources and uses of funds during the past two years.

$000S	**2010**	2009
Sources of funds:		
Funds generated from operations (cash flow)*	**829**	176
Changes in non-cash working capital items*	**(468)**	(1,145)
Share capital issued, net of costs	**–**	463
Repayable research funding	**50**	–
Convertible debentures proceeds	**–**	500
	411	(6)
Uses of funds:		
Purchase of property and equipment	**(91)**	(52)
Change in long-term debt	**(139)**	(132)
Royalties paid	**(218)**	–
Increase in royalties payable	**108**	289
	(340)	105
Net change in cash	**71**	99

* *Cash flows provided by operating activities comprise the cash generated by operating activities less changes in working capital requirements.*

The increase in 2010 in cash flows provided by operating activities resulted from a significant increase in cash generated by operating activities of $1,330,000, which was due to a sharp increase in operating income of $855,000 and from non-cash working capital item improvements primarily due to SGGF legal fees being written off.

FREE CASH FLOW*

$000S	2010	2009
Cash flows provided by operating activities	**361**	(969)
Purchase of property and equipment and deposits	**(91)**	(52)
Free Cash Flow	**270**	(1,021)

* *Free cash flow (available cash) represents cash flow from operating activities less capital expenditures net of proceeds from disposal. Free cash flow (FCF) represents the cash that a company is able to generate after laying out the money required to maintain or expand its asset base. Free cash flow is important because it allows a company to repay debt obligations and pursue opportunities that enhance shareholder value.*

Free cash flow significantly improved in 2010 by $1,291,000 mostly due to improved cash flow from operating activities – $1,330,000 partially offset by increased spending in 2010 on property and equipment in the amount of $39,000.

The Company estimates that the cash flows generated by its operating activities as well as cash available through other sources will be sufficient to finance its operating expenses, capital investment, and debt service needs.

The Company relies upon revenues generated from the sale of active ingredients, the proceeds of public and private offerings of equity securities and debentures, and income offerings to support the Company's operations.

Total common shares issued and outstanding as at April 18, 2011 were 56,578,948 (April 14, 2010 – 51,710,063). In addition, 3,105,000 stock options as at April 18, 2011 (April 14, 2010 – 2,485,000) were outstanding that are potentially convertible into an equal number of common shares at various prices.

Ceapro's working capital position was ($820,000) at December 31, 2010, an improvement of $453,000 from ($1,273,000) at December 31, 2009.

To meet future requirements, Ceapro intends to raise additional cash through some or all of the following methods: public or private equity or debt financing, income offerings, capital leases, collaborative and licensing agreements, and joint venture or partnership financings. However, there is no assurance of obtaining additional financing through these arrangements on acceptable terms, if at all. The ability to generate new cash will depend on external factors, many beyond the Company's control, as outlined in the Risks and Uncertainties section. Should sufficient capital not be raised, Ceapro may have to delay, reduce the scope of, eliminate, or divest one or more of its discovery, research, or development technology or programs, any of which could impair the value of the business.

The Company was approved for non-repayable funding in the amount of $124,000 from Alberta Ingenuity. During 2010, the Company received $20,750 which was recorded as a reduction of research and development expenses. The Company anticipates receiving an additional amount of $62,000 in 2011 and $41,250 in 2012 under this program.

The Company was approved for non-repayable funding for up to 50% of eligible costs to a maximum of $99,900 under the Growing Forward Product Development program. The Company recognized $39,824 in 2010 under this program with $22,574 recorded as a reduction of research and development expenses, and $17,250 recorded as a reduction of prepaid expenses. An amount of $15,429 was included in accounts receivable at December 31, 2010 with respect to this agreement. The Company anticipates the balance of eligible funding to be received in the first quarter of 2011.

The Company was approved for non-repayable funding in the amount of $50,000 for eligible costs from the Atlantic Canada Opportunities Agency. The Company recorded $39,121 of funding in 2010 as a reduction of research and development expenses and anticipates receiving further $10,879 in 2011 under this program. An amount of $11,272 was recorded in accounts receivable at December 31, 2010 with respect to this agreement.

The Company was approved for non-repayable funding to a maximum of $21,250 of eligible expenditures under the Novel Crops Initiative program from the Prince Edward Island Department of Agriculture. The Company recorded the amount of $5,925 as a reduction of research and development expenditures under this program. An amount of $5,925 is included in accounts receivable at December 31, 2010 with respect to this agreement. The Company anticipates receiving further funding of up to $5,000 in 2011 and $5,000 in 2012.

The Company was approved for non-repayable funding of $7,055 under the Growing Forward Lean Manufacturing Initiative. The Company recognized $5,823 as a reduction of cost of certain property and equipment, and $1,232 as a reduction of research and development expenditures. The full amount of $7,055 was included in accounts receivable at December 31, 2010.

The Company received a repayable non-interest bearing contribution for research and development expenditures in the amount of $50,000 from Innovation PEI, which is recorded as a repayable research funding liability on the balance sheet. The Company may be eligible for a further contribution of $50,000 in 2011. The contribution is repayable quarterly at a rate of one percent of sales revenue subject to a minimum payment of $12,500 per quarter.

The Company is also eligible to claim up to $1,339,625 of eligible research and development expenditures in 2011 and 2012 under the Canadian Agricultural Adaptation Program. All amounts claimed under the program are repayable interest free over eight years beginning in 2013.

The Company is currently reviewing additional options available to raise capital.

RELATED PARTY TRANSACTIONS

During 2010, $21,951 (2009 – $38,699) of royalties were earned by employees and directors from their investment in previous Ceapro royalty offerings. As at December 31, 2010, $27,758 (2009 – $84,581) of royalties were payable to employees and directors. During 2010, employees and directors converted $71,898 of royalties payable into common shares of the Company. Consulting fees of $150,000 (2009 – $150,000) were earned by a company controlled by a director during 2010. During 2010, officers and directors earned $5,753 of interest on convertible debentures (2009 – $nil). During 2010, officers and directors converted $2,953 of convertible debenture interest into common shares of the Company. As at December 31, 2010, officers and directors owned $70,000 (2009 – $70,000) of convertible debentures. As at December 31, 2010, consulting fees of $nil (2009 – $37,500) were payable to a company controlled by a director and included in accounts payable and accrued liabilities. These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

COMMITMENTS AND CONTINGENCIES

a) During the year ended December 31, 2008, the Company recorded a provision for disputed legal fees from two legal firms in the amount of $741,283 that related to a settled litigation case. In 2009, the Company recorded a recovery of $426,300 of the previously disputed legal fees as one legal firm advised the Company that it would not be pursuing their claim. Based upon review by management with legal counsel during the year and the circumstances applicable at that time, management believes the Company is no longer exposed to the remaining accrued legal fee liability in the amount of $314,983. The Company recorded a recovery of $314,983 of the remaining disputed legal fees. The balance of $nil is recorded as a liability on the balance sheet in 2010 (2009 – $314,983) as SGGF legal fees.

b) During the year ended December 31, 2008, the Company entered into a licensing agreement with the University of Guelph for an exclusive variety of a mint plant. The Company paid a licensing fee of $30,000 and is amortizing the license over 10 years. The license is carried on the balance sheet at $24,000 (2009 – $27,000) which reflects accumulated amortization of $6,000 (2009 – $3,000). The amortization expense of $3,000 (2009 – $3,000) has been

included in amortization on the income statement. The Company is obligated to pay the University an amount equal to 8% of net sales from products derived from the mint plants subject to minimum payments as follows:

2011	**$ 12,960**
2012	**20,160**
2013	**27,360**
2014	**34,560**
2015 to 2017	**146,880**
Total	**$241,920**

For 2010, the Company recognized a minimum royalty expense of $5,760 (2009 – $5,760). Royalties payable at December 31, 2010 are $13,920 (2009 – $8,160).

c) In the normal course of operations, the Company may be subject to litigation and claims from customers, suppliers, and former employees. Management believes that adequate provisions have been recorded in the accounts, where required. Although it is not possible to estimate the extent of potential costs, if any, management believes that the ultimate resolution of such contingencies would not have a material adverse effect on the financial position of the Company.

OUTLOOK

Results obtained in 2010 are the best ever in the Company's history. The very strong result from the third and fourth quarters of 2010 is solid evidence of the successful implementation of Ceapro's renewed and focused strategy.

From a financial perspective, these results translate into positive trends of improved working capital, a strengthened balance sheet, an ability to reduce debt to royalty holders, and an improved foundation to pursue traditional commercial financing.

This overall improving situation is being noticed by both private and public sectors that see tremendous value in Ceapro technology to form partnerships. Recent contributions from the Atlantic Canada Opportunities Agency, Innovation PEI, Alberta Ingenuity, and the Canadian Agricultural Adaptation Program reflect a vote of confidence in both Ceapro technology and our ability to commercialize the novel technology that Ceapro is developing. We anticipate additional partnerships will be completed in the near future.

Thanks to the contributions Ceapro has received, we are able to initiate innovative research projects in both Alberta and Prince Edward Island. Ceapro's participation is being sought in other projects by other parties which should lead to an expanded base of opportunity for growth. We anticipate a need to expand our marketing and business development and plan to commence expansion of our manufacturing facilities.

We believe that Ceapro has turned the corner in 2010. With our strong team of dedicated and hard working staff, we believe Ceapro is well positioned to sustain and grow sales and profitability in 2011.

ADDITIONAL INFORMATION

Additional information relating to Ceapro Inc., including a copy of the Company's Annual Report and Proxy Circular, can be found on SEDAR at www.sedar.com.

:: Consolidated Financial Statements

MANAGEMENT'S REPORT

TO THE SHAREHOLDERS OF **CEAPRO INC.**,

The accompanying consolidated financial statements of Ceapro Inc., and all information presented in this report, are the responsibility of Management and have been approved by the Board of Directors.

The consolidated financial statements have been prepared by Management in accordance with Canadian generally accepted accounting principles. The consolidated financial statements include some amounts that are based on the best estimates and judgments of Management. Financial information used elsewhere in this report is consistent with that in the consolidated financial statements.

To further the integrity and objectivity of data in the consolidated financial statements, Management of the Company has developed and maintains a system of internal controls, which Management believes will provide reasonable assurance that financial records are reliable and form a proper basis for preparation of consolidated financials statements, and that assets are properly accounted for and safeguarded.

The Board of Directors carries out its responsibility for the consolidated financial statements in the report principally through its Audit Committee. The Audit Committee is appointed by the Board, and all of its members are outside and unrelated Directors. The Committee meets periodically with Management and the external auditors to discuss internal controls over the financial reporting process and financial reporting issues, to make certain that each party is properly discharging its responsibilities, and to review quarterly reports, the annual report, the annual consolidated financial statements, management discussion and analysis, and the external auditors' report. The Committee reports its findings to the Board for consideration when approving the consolidated financial statements for issuance to the shareholders. The Company's auditors have full access to the Audit Committee, with and without Management being present.

The consolidated financial statements have been audited by the Company's auditors, Stout & Company LLP, in accordance with auditing standards generally accepted in Canada on behalf of the shareholders.

SINCERELY,

SIGNED "Gilles Gagnon"
Acting President and Acting Chief Executive Officer

SIGNED "Branko Jankovic, CA"
Chief Financial Officer

STOUT & COMPANY LLP

CHARTERED ACCOUNTANTS EDMONTON, CANADA

INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS OF **CEAPRO INC.**

We have audited the accompanying consolidated financial statements of Ceapro Inc. and its subsidiaries ("the Company"), which comprise the consolidated balance sheets as at December 31, 2010 and 2009 and the consolidated statements of net income (loss) and comprehensive income (loss) and deficit and cash flows for the years then ended, and the related notes including a summary of significant accounting policies.

MANAGEMENT'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Ceapro Inc. as at December 31, 2010 and 2009 and the results of its operations and cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

EMPHASIS OF MATTER

We draw attention to note 1 of the consolidated financial statements which describes the existence of uncertainties that may cast significant doubt about the Company's ability to continue as a going concern. Our opinion is not qualified in respect of this matter.

Stout & Company LLP

Chartered Accountants

Edmonton, Canada
April 18, 2011

CONSOLIDATED BALANCE SHEETS

	December 31 2010 $	December 31 2009 $
ASSETS		
Current Assets		
Cash	**186,690**	115,502
Accounts receivable	**570,362**	151,144
Inventories (note 3)	**279,425**	516,821
Prepaid expenses and deposits	**70,230**	62,309
	1,106,707	845,776
License (note 10b)	**24,000**	27,000
Property and equipment (note 4)	**1,689,052**	1,897,878
	2,819,759	2,770,654
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	**862,163**	846,538
Current portion of deferred royalty revenue	**60,000**	60,000
Current portion of long-term debt (note 5)	**146,426**	138,806
Royalties payable (note 7)	**378,051**	758,436
Convertible debentures (note 6)	**467,500**	–
Current portion of repayable research funding (note 19)	**12,500**	–
SGGF legal fees (note 10a)	**–**	314,983
	1,926,640	2,118,763
Deferred royalty revenue	**166,198**	220,422
Employee future benefits obligation (note 8)	**160,187**	136,786
Long-term debt (note 5)	**1,081,000**	1,227,426
Repayable research funding (note 19)	**37,500**	–
Convertible debentures (note 6)	**–**	440,000
	3,371,525	4,143,397
SHAREHOLDERS' DEFICIENCY		
Share capital (note 9b)	**5,770,858**	5,479,202
Equity component of Convertible Debentures (note 6)	**60,000**	60,000
Contributed surplus (note 9c)	**507,188**	478,945
Deficit	**(6,889,812)**	(7,390,890)
	(551,766)	(1,372,743)
	2,819,759	2,770,654

CONTINGENCIES (note 10a and 10c)

See accompanying notes

Approved on Behalf of the Board

SIGNED: "Glenn Rourke"
Director

SIGNED: "Edward Taylor"
Director

CONSOLIDATED STATEMENTS OF NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS) AND DEFICIT

Years ended December 31	2010 $	2009 $
REVENUE		
Sales (note 11)	**5,576,636**	4,370,070
Cost of goods sold	**3,041,469**	2,252,024
Gross margin	**2,535,167**	2,118,046
EXPENSES		
General and administration	**1,237,240**	1,424,344
Royalties	**59,985**	250,663
Sales and marketing	**69,513**	183,693
Amortization	**37,227**	44,842
Interest on convertible debentures	**41,096**	–
Accretion on convertible debentures	**27,500**	–
Interest on long-term debt	**69,808**	77,031
	1,542,369	1,980,573
Income (loss) from operations	**992,798**	137,473
OTHER INCOME (EXPENSES)		
Research and product development	**(764,351)**	(577,629)
Write off of property and equipment	**(12,278)**	–
Other income (loss) (note 12)	**(30,074)**	(55,493)
Income (loss) before SGGF legal fee recoveries and income taxes	**186,095**	(495,649)
SGGF legal fee recoveries (note 10a)	**314,983**	426,300
NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS) FOR THE YEAR	**501,078**	(69,349)
Deficit, beginning of year	**(7,390,890)**	(7,321,541)
DEFICIT, END OF YEAR	**(6,889,812)**	(7,390,890)
Net income (loss) per common share:		
Basic (note 20)	**0.01**	(0.00)
Diluted (note 20)	**0.01**	(0.00)
Weighted average number of common shares outstanding	**53,219,621**	49,577,953

See accompanying notes

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31	2010 $	2009 $
OPERATING ACTIVITIES		
Net income (loss) for the year	**501,078**	(69,349)
Adjustments to reconcile net income (loss) to cash provided by operating activities		
Amortization	**290,640**	356,958
Write-off of property and equipment	**12,278**	–
Accretion on convertible debentures	**27,500**	–
Deferred royalty revenue	**(54,224)**	(49,647)
Employee future benefits obligation	**23,401**	(167,226)
Stock based compensation	**28,243**	104,927
	828,916	175,663
CHANGES IN NON-CASH WORKING CAPITAL ITEMS		
Accounts receivable	**(419,218)**	400,450
Inventories	**237,396**	(109,854)
Prepaid expenses and deposits	**(7,921)**	20,259
Accounts payable and accrued liabilities	**36,721**	(304,276)
SGGF legal fees	**(314,983)**	(1,151,300)
	(468,005)	(1,144,721)
	360,911	(969,058)
INVESTING ACTIVITY		
Purchase of property and equipment	**(91,092)**	(52,096)
FINANCING ACTIVITIES		
Repayment of long-term debt	**(138,806)**	(131,582)
Proceeds from convertible debenture issue	**–**	500,000
Proceeds from issuance of share capital	**–**	466,000
Repayable research funding	**50,000**	–
Share capital issue costs	**–**	(3,193)
Royalties paid	**(218,274)**	–
Increase in royalties payable	**108,449**	288,906
	(198,631)	1,120,131
Increase in cash	**71,188**	98,977
Cash at beginning of year	**115,502**	16,525
Cash at end of year	**186,690**	115,502
SUPPLEMENTARY INFORMATION		
Interest paid	**69,808**	77,031
Royalties paid	**218,274**	–

See accompanying notes

The non-cash transactions described in notes 6 and 9(b) have been excluded from the statement of cash flows.

:: Notes to Consolidated Financial Statements

1. NATURE OF BUSINESS OPERATIONS AND GOING CONCERN

Ceapro Inc. (the "Company") is incorporated under the Canada Business Corporations Act and is listed on the TSX Venture Exchange. The Company's primary business activities relate to the marketing and development of various health and wellness products and technology relating to plant extracts.

The consolidated financial statements have been prepared on a going concern basis, which assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge liabilities in the normal course of operations. However, certain conditions may cast some doubt upon the validity of this assumption. Since inception, the Company has accumulated net losses, generated inconsistent operating cash flow, and has not yet achieved consistent profitability. The Company has relied on the proceeds of public and private offerings of equity securities and debentures, debt, and other income offerings to support the Company's operations. The Company's ability to continue as a going concern is dependent on obtaining additional financial capital, achieving profitability, and generating consistent positive cash flow. There can be no assurance that the Company will be able to access capital when needed, achieve profitability, or generate positive cash flow.

These financial statements do not reflect the adjustments that might be necessary to the carrying amount of reported assets, liabilities, and revenues and expenses, and the balance sheet classification used if the Company were unable to continue operations. Such adjustments could be material.

2. SIGNIFICANT ACCOUNTING POLICIES

A) USE OF ESTIMATES

The preparation of consolidated financial statements in conformity with Canadian generally accepted accounting principles ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of the assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. The significant areas requiring the use of management estimates relate to provisions made for inventory valuation, amortization of property and equipment, the assumptions used in determining stock based compensation, and the interest rates used in determining the value of employee future benefits obligation and the liability portion of convertible debentures. Actual results could differ from those estimates.

B) PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Ceapro Technology Inc., Ceapro Veterinary Products Inc., Ceapro Active Ingredients Inc., Ceapro BioEnergy Inc., Ceapro (P.E.I) Inc., and Ceapro USA Inc.

C) CASH AND CASH EQUIVALENTS

Cash and cash equivalents are defined as amounts on deposit with financial institutions and readily convertible term deposits with a maturity of 3 months or less on inception.

D) REVENUE RECOGNITION

Revenue from the sale of health and wellness products is recognized as revenue at the time the products are shipped to customers. The sale of royalty interests from royalty interest offerings are recorded as deferred royalty revenue and are recorded against royalty expense on the basis of $1 of deferred revenue recognized for every $2 of royalty expense

incurred. Royalty, licenses, and product development fees are recorded in accordance with the terms of the applicable agreements.

E) INVENTORIES

Inventory of raw materials is valued at the lower of cost and net realizable value on a first-in, first-out basis. Inventory of work-in-process and active ingredients is valued at the lower of cost and net realizable value on an average cost basis.

F) LICENSES

Licenses are recorded at cost and are amortized straight-line over the life of the license.

G) PROPERTY AND EQUIPMENT

Property and equipment are recorded at cost and are amortized over their estimated useful lives as follows:

Manufacturing equipment	10 years straight-line
Office equipment	20% declining balance
Computer equipment	30% declining balance
Leasehold improvements	Over the term of the lease

H) RESEARCH AND PRODUCT DEVELOPMENT EXPENDITURES

Research costs are expensed when incurred. Product development costs are also expensed when incurred unless they are significant and meet generally accepted criteria for deferral. Costs are reduced by government grants and investment tax credits where applicable.

I) FOREIGN CURRENCY

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at year-end exchange rates and non-monetary assets at the exchange rates prevailing when the assets were acquired. Foreign currency denominated revenue and expense items are translated at the rate of exchange in effect at the time of the transaction. Foreign currency gains or losses arising on translation are included in income.

J) INCOME TAXES

The liability method is used for determining income taxes. Under this method, future income tax assets and liabilities are recognized for the estimated tax recoverable or payable that would arise if assets and liabilities were recovered or settled at the financial statement carrying amounts. Future tax assets and liabilities are measured using substantively enacted tax rates expected to apply to taxable income in the year in which temporary differences are expected to be recovered or settled. Changes to these balances, including changes due to changes in income tax rates, are recognized in income in the period in which they occur. The amount of the future income tax assets recognized is limited to the amount that is more likely than not to be realized.

K) LEASE OBLIGATIONS

Leases are classified as capital or operating leases. A lease that transfers substantially the entire benefits and risks incidental to the ownership of property is classified as a capital lease. At the inception of a capital lease, an asset and an obligation are recorded at an amount equal to the lesser of the present value of the minimum lease payments and the property's fair value at the beginning of the lease. All other leases are accounted for as operating leases wherein payments are expensed as incurred.

L) GOVERNMENT ASSISTANCE

Government assistance is periodically granted to the Company under available government incentive programs. Government assistance relating to research and development expenditures is recorded as a reduction of the expenditures when received.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

M) INVESTMENT TAX CREDITS

Investment tax credits relating to qualifying scientific research and experimental development expenditures are accrued provided there is a reasonable assurance that the credits will be realized. When recorded, the investment tax credits are accounted for as a reduction of the related expenditures.

N) NET INCOME (LOSS) PER COMMON SHARE

Basic net income (loss) per common share is computed by dividing the net income (loss) by the weighted average number of common shares outstanding during the year. Diluted per share amounts reflect the potential dilution that could occur if convertible securities and convertible debt were converted to common shares. The treasury stock method of calculating diluted per share amounts is used whereby any proceeds from the conversion of convertible securities that are in-the-money are assumed to be used to purchase common shares of the Company at the average market price during the period. The "If Converted" method is used to calculate the dilutive effect of convertible debentures. When the Company is in a net loss position, the conversion of convertible securities and debt is considered to be anti-dilutive.

O) STOCK BASED COMPENSATION

Stock based compensation is accounted for using the fair value method whereby compensation expense related to these programs is recorded in the statement of net income (loss) and comprehensive income (loss) and deficit with a corresponding increase to contributed surplus. The fair value of options granted is determined at the date of grant and expensed over the vesting period. The value of warrants issued to agents is recorded as share issuance costs with a corresponding increase to contributed surplus.

Consideration paid on the exercise of stock options and warrants is credited to share capital. Upon the exercise of the stock options and warrants, consideration received together with the amount previously recognized in contributed surplus is recorded as an increase to share capital. The Company does not incorporate an estimated forfeiture rate for stock options and agents warrants that may not vest, but accounts for forfeitures as they occur.

P) EMPLOYEE FUTURE BENEFITS

The Company accrues its obligations under an employee defined retirement benefit plan and related costs, net of plan assets. The cost of retirement benefits earned by employees is determined using the accumulated benefit method and management's best estimate of expected plan investment performance and retirement ages of employees. Past service costs relating to plan amendments are accrued and recognized in the year the amendments occur.

Q) IMPAIRMENT OF LONG-LIVED ASSETS

In the event that facts and circumstances indicate that the carrying value of long-lived assets may be impaired, the Company performs a recoverability evaluation. If the evaluation indicates that the carrying value is not recoverable from undiscounted cash flows attributable to the assets, then an impairment loss is measured by comparing the carrying amount of the asset to its fair value.

R) FUTURE ACCOUNTING PRONOUNCEMENTS

IFRS

In 2006, Canada's Accounting Standards Board ("AcSB") ratified a strategic plan that will result in Canadian GAAP, as used by public entities, being converged with International Financial Reporting Standards ("IFRS") over a transitional period. In February 2008, the AcSB confirmed January 1, 2011 as the date that Canadian public entities will be required to start reporting under IFRS. Comparative financial information for 2010 will be required when companies begin reporting 2011 results under IFRS.

During 2010 the Company has prepared its financial statements under Canadian GAAP and will produce financial statements for the same periods under IFRS. The financial statements produced under IFRS will be for internal use only in 2010, but in 2011 they will be released as comparative period financial statements.

3. INVENTORIES

a) The Company had the following inventory at the end of each reporting period:

	2010 $	2009 $
Raw materials	**224,262**	218,604
Work in progress	**15,996**	135,026
Finished goods	**39,167**	163,191
	279,425	516,821

Inventories expensed in cost of goods sold during the year ended December 31, 2010 is $2,980,103 (2009 – $2,171,570). During the year ended December 31, 2010, the Company decreased the carrying value of inventory by $99,272 (2009 – $10,717) due to lower estimated realizable values from certain raw materials, work in progress, and finished goods.

4. PROPERTY AND EQUIPMENT

	2010		
	Cost $	**Accumulated Amortization $**	**Net Book Value $**
Manufacturing equipment	**2,874,853**	**1,282,477**	**1,592,376**
Office equipment	**76,280**	**58,522**	**17,758**
Computer equipment	**250,364**	**180,067**	**70,297**
Leasehold improvements	**120,364**	**111,743**	**8,621**
	3,321,861	**1,632,809**	**1,689,052**

	2009		
	Cost $	Accumulated Amortization $	Net Book Value $
Manufacturing equipment	2,811,773	1,063,270	1,748,503
Office equipment	75,861	54,135	21,726
Computer equipment	240,070	152,878	87,193
Leasehold improvements	120,014	79,557	40,457
	3,247,718	1,349,840	1,897,878

Manufacturing equipment with a net book value of $176,431 will not be amortized until it is put into service.

For the year ended December 31, 2010, the total amortization of $290,640 (2009 – $356,958) was allocated as follows: $37,227 (2009 – $44,842) to amortization expense, $3,649 (2009 – 22,873) to inventory, and $249,764 (2009 – $289,243) to cost of goods sold.

5. LONG-TERM DEBT

	2010 **$**	2009 $
Loan payable at $17,384 per month, principal and interest at 5.49%, secured by a general security agreement, due January, 2013.	**1,227,426**	1,366,232
Less current portion	**146,426**	138,806
	1,081,000	1,227,426

Estimated principal payments due in the next three years are as follows:

	$
2011	146,426
2012	154,465
2013	926,535
	1,227,426

The effective interest rate of 5.49% is a preferred rate and the monthly payments of $17,384 reflect this preferred rate. In the event of default of any terms and conditions of the loan and enforcement of these terms and conditions by the lender, the preferred interest rate will be cancelled from the date of enforcement of the action. If such a circumstance were to arise, the interest rate would become 7.49% and result in monthly payments of $18,925. The security agreement also includes a standard subjective acceleration clause for material adverse events. The Company is in compliance with all terms and conditions.

6. CONVERTIBLE DEBENTURES

On December 31, 2009, the Company issued secured convertible debentures for cash of $500,000. The debentures bear interest at 8% per annum, mature on December 31, 2011, and are convertible at any time at a price of $0.10 per common share at the option of the holder. The debentures may be redeemed at the option of the Company upon giving notice of 60 days. The Company may satisfy interest payments through the delivery of common shares at the weighted average market price of the Common Shares for the 20 trading days the Common Shares traded on the TSX-V immediately prior to the date on which the interest obligation is due. The debenture security ranks subordinate to the Company's existing long-term debt as well as $500,000 for a potential working capital facility. Currently there is no working capital facility.

The convertible debentures contain both liability and equity components. The Company has allocated the total proceeds received between the liability and equity components of the convertible debentures using the residual method, based on a discount rate of 15%, which is the estimated cost of borrowing at which the Company could borrow similar debt without a conversion feature. Interest and accretion on the liability component will be amortized using the effective interest method until the debentures are converted or reach maturity.

	2010 **$**	2009 $
Total value of convertible debentures	**527,500**	500,000
Equity component	**60,000**	60,000
Liability component	**467,500**	440,000

	2010 **$**	2009 $
Interest expense	**41,096**	–
Accretion	**27,500**	–

The Company paid $20,000 of interest and converted $21,096 into 271,752 common shares for full settlement of interest. The non-cash transaction involving the issuance of common shares has been excluded from the consolidated statements of cash flows.

7. ROYALTIES PAYABLE

	2010 **$**	2009 $
Royalties payable pursuant to financial assistance received (note 7 (a))	**–**	111,844
Royalties payable pursuant to royalty interest offering (note 7 (c),(d),and (e))	**378,051**	646,592
	378,051	758,436

a) In the year ended December 31, 1999, the Company received financial assistance in the amount of $164,882 for the research and development of new products, patents, and markets. The Company is obligated to pay a 5% royalty (to a maximum of two times the financial assistance received) on sales generated from products developed using these funds. The portion of this obligation paid or accrued as at December 31, 2010 was $329,764 (2009 – $329,764). In October 2010, $111,844 was repaid and the balance of royalties payable under this agreement as at December 31, 2010 was $nil (2009 – $111,844).

b) In the year ended December 31, 2004, the Company received a commitment for financial assistance totaling $250,000 for pre-market activities of CeaProve® (a health and wellness product) upon completion of project objectives as outlined and agreed to by both parties. As at December 31, 2010, $225,000 (2009 – $225,000) of this commitment has been received. The Company is obligated to pay a royalty (to a maximum of two times the financial assistance received) on sales generated from CeaProve® on the following basis: 0% of revenues earned to December 31, 2005, 2.5% of revenues earned to December 31, 2006, and 5% thereafter until repaid. No royalties have been paid or accrued during the current or prior years. The Company has repaid at December 31, 2010 $nil (2009 – $nil) of this obligation. Upon completion of the repayment of the financial assistance received, the Company will be required to repay $19,750 advanced during the year ended December 31, 2002. The portion of this obligation paid or accrued as at December 31, 2010 was $nil (2009 – $nil).

c) In the year ended December 31, 2003, the Company completed a Royalty Income Unit offering through the terms described in an Offering Memorandum. Each royalty interest has a right to receive royalties equal to 0.00001% from the sale or licensing of the Company's active ingredients and animal health products, to a maximum cumulative amount of $2.08 per unit. Proceeds from the offering of $516,348 (before related expenses) represent the sale of a 5.163% royalty interest in the Company's future sales and licensing of active ingredients and animal health products. Maximum royalties payable are two times the amount invested or $1,032,695. The portion of this obligation paid or accrued at December 31, 2010 was $1,032,695 (2009 – $1,032,695). During the year, the Company repaid $150,156 (2009 – $nil) through cash payments totaling $56,849 and by issuing 1,036,744 common shares. The balance of royalties payable under this offering as at December 31, 2010 was in arrears and totaled $170,536 (2009 – $320,692).

7. ROYALTIES PAYABLE (CONTINUED)

d) In the year ended December 31, 2003, the Company sold a 1.418% royalty interest in the Company's future sales and licensing of active ingredients and animal health products for $141,796. In the year ended December 31, 2004, the Company sold an additional 1.724% royalty interest in the future sales and licensing of active ingredients and animal health products for $172,401. The cumulative royalty interest of 3.142% for $314,197 results in combined maximum royalties of two times the amount invested or $628,394. The portion of this obligation paid or accrued at December 31, 2010 was $628,394 (2009 – $628,394). During the year, the Company repaid $108,542 (2009 – $nil) through cash payment totaling $13,634 and by issuing 1,054,533 common shares. The balance of royalties payable under this offering as at December 31, 2010 was in arrears and totaled $40,903 (2009 – $149,445).

e) On December 28, 2005, the Company sold a 2.285% royalty interest in the Company's future sales and licensing of active ingredients, animal health, and CeaProve® products for $457,000. Maximum royalties payable are two times the amount invested or $914,000. The portion of this obligation paid or accrued as at December 31, 2010 was $458,775 (2009 – $350,326). During the year, the Company repaid $118,292 ($2009 – $nil) through cash payments totaling $35,947 and by issuing 914,947 common shares. The balance of royalties payable under this offering as at December 31, 2010 was in arrears and totaled $166,612 (2009 – $176,455).

f) In the year ended December 31, 2005, the Company received a commitment for financial assistance totaling $362,250 for product innovation development in the area of Veterinary Therapeutics and Active Ingredients. As at December 31, 2010, $362,250 (2009 – $362,500) of the commitment has been received. The Company is obligated to pay a 2.5% royalty to a maximum of $75,000 per quarter (to a maximum of two times the financial assistance received or $724,500) on sales generated from products developed using these funds. These royalties will commence when the royalty payments on investment agreements in note 7(a) are fully satisfied. The portion of the obligation paid or accrued at December 31, 2010 was $nil (2009 – $nil).

g) In the year ended December 31, 2005, the Company received a commitment for financial assistance totaling $800,000 for pre-market activities of CeaProve® (a health and wellness product) upon completion of project objectives as outlined and agreed to by both parties. As at December 31, 2010, $510,000 of this commitment has been received (2009 – $510,000). The Company is obligated to pay a royalty (to a maximum of one and a half times the financial assistance received or $765,000) on sales of CeaProve® on the following basis: 0% of net sales and net sub-licensing revenues earned until royalty payments have been fully satisfied under the investment agreement in note 7(b), and 5% thereafter until repaid to a maximum of $125,000 per quarter. No royalties have been incurred during the current year. The portion of this obligation paid or accrued as at December 31, 2010 was $nil (2009 – $nil).

8. EMPLOYEE FUTURE BENEFIT OBLIGATION

The Company has an unfunded, non-registered, non-indexed defined retirement benefit plan for certain officers. The retirement benefit is two months' salary for each year they are employed by the Company. During the year ended December 31, 2008, pursuant to a termination agreement with the Company's former President and Chief Executive Officer, the Company has settled the benefit obligation with this senior officer. The Company completed all required payments under the termination agreement on December 31, 2009.

Accrued benefit obligation	**2010** **$**	2009 $
Unfunded balance, beginning of year	**136,786**	304,012
Benefits paid	**–**	(187,000)
Current service cost	**17,297**	14,871
Interest costs on accrued benefit obligation	**6,104**	4,903
	160,187	136,786

Elements of defined benefit costs recognized in the year	2010 $	2009 $
Current service cost	**17,297**	14,871
Interest cost on accrued benefit obligation	**6,104**	4,903
	23,401	19,774

Management is required to make an estimate regarding the discount rate used to determine the accrued benefit obligation. This estimate is of a long-term nature, which is consistent with the nature of the employee future benefits. The discount rate used to determine the accrued benefit obligation as at December 31, 2010 was 4.19% (December 31, 2009 – 4.19%).

9. SHARE CAPITAL

A) AUTHORIZED

i) Unlimited number of Class A voting common shares. Class A common shares have no par value.

ii) Unlimited number of Class B non-voting common shares. There are no issued Class B shares.

B) ISSUED – CLASS A COMMON SHARES

	2010		2009	
	Number of Shares	Amount $	Number of Shares	Amount $
Balance at beginning of year	**51,710,063**	**5,479,202**	47,050,063	5,016,395
Changes during the year				
Equity placements	–	–	4,660,000	466,000
Shares issued for debt	**3,277,976**	**291,656**	–	–
Share capital issue cost	–	–	–	(3,193)
	54,988,039	**5,770,858**	51,710,063	5,479,202

During the year ended December 31, 2010, the Company issued 3,006,224 common shares for the settlement of royalty payable obligations totaling $270,560 as described in notes 7(c), (d), and (e) and 271,752 common shares for full settlement of interest due on convertible debentures in the amount of $21,096 as described in note 6. The non-cash transactions have been excluded from the consolidated statement of cash flows.

During the year ended December 31, 2009, the Company issued 4,660,000 common shares at $0.10 per share for gross proceeds of $466,000.

C) CONTRIBUTED SURPLUS

The following table summarizes the changes in contributed surplus:

	2010 $	2009 $
Balance at beginning of year	**478,945**	374,018
Stock based compensation expense (note 9 (d))	**28,243**	104,927
	507,188	478,945

9. SHARE CAPITAL (CONTINUED)

D) STOCK OPTIONS AND STOCK BASED COMPENSATION

The Company has granted stock options to eligible employees, directors, officers, and consultants under stock option plans that vest over periods ranging from 2 years to five years and have a maximum term of five years.

The Company accounts for options granted under these plans in accordance with the fair value based method of accounting for stock based compensation. In the current year, the Company granted 650,000 (2009 – 900,000) stock options. The application of the fair value based method requires the use of certain assumptions regarding the risk-free market interest rate, expected volatility of the underlying stock, and life of the options. The weighted average risk-free rate used in 2010 was 2.29% (2009 – 2.11%), the weighted average expected volatility was 126% (2009 – 112%), which was based on prior trading activity of the Company's shares, the weighted average expected life of the options was 5 years (2009 – 5 years), and the expected dividends were nil (2009 – nil). The weighted average grant date fair value of options granted during the year were $0.06 (2009 – $0.10) per option. The stock based compensation expense recorded during the current year relating to options granted in 2010, 2009, 2008, 2007 and 2006 was $28,243 (2009 – $104,927).

A summary of the status of the Company's stock options at December 31, 2010 and 2009 and changes during the years ended on those dates is as follows:

	2010		2009	
	Number of Options	**Weighted Average Exercise Price $**	Number of Options	Weighted Average Exercise Price $
Outstanding at beginning of year	**2,485,000**	**0.18**	1,810,000	0.21
Granted	**650,000**	**0.10**	900,000	0.13
Expired	**(30,000)**	**0.12**	(225,000)	0.20
Outstanding at end of year	**3,105,000**	**0.16**	2,485,000	0.18
Exercisable at end of year	**2,261,667**	**0.18**	1,314,000	0.20

The following table summarizes information about the Company's stock options outstanding:

		2010	2009
Exercise Price $	Year of Expiration	**Number of Options**	Number of Options
0.10	2015	**650,000**	–
0.13	2014	**900,000**	900,000
0.12	2013	**630,000**	660,000
0.25	2013	**210,000**	210,000
0.28	2012	**390,000**	390,000
0.30	2012	**100,000**	100,000
0.30	2011	**75,000**	75,000
0.27	2011	**150,000**	150,000
		3,105,000	2,485,000

10. CONTINGENCIES AND COMMITMENTS

a) During the year ended December 31, 2008, the Company recorded a provision for disputed legal fees from two legal firms in the amount of $741,283 that related to a settled litigation case. In 2009, the Company recorded a recovery of $426,300 of the previously disputed legal fees as one legal firm advised the Company that it would not be pursuing their claim. Based upon review by management with legal counsel during the year and the circumstances applicable at that time, management believes the Company is no longer exposed to the remaining accrued legal fee liability in the amount of $314,983. The Company recorded a recovery of $314,983 of the remaining disputed legal fees. The balance of $nil is recorded as a liability on the balance sheet in 2010 (2009 – $314,983) as SGGF legal fees.

b) During the year ended December 31, 2008, the Company entered into a licensing agreement with the University of Guelph for an exclusive variety of a mint plant. The Company paid a licensing fee of $30,000 and is amortizing the license over 10 years. The license is carried on the balance sheet at $24,000 (2009 – $27,000), which reflects accumulated amortization of $6,000 (2009 – $3,000). The amortization expense of $3,000 (2009 – $3,000) has been included in amortization on the income statement. The Company is obligated to pay the University an amount equal to 8% of net sales from products derived from the mint plants subject to minimum payments as follows:

	$
2011	12,960
2012	20,160
2013	27,360
2014	34,560
2015 to 2017	146,880
Total	241,920

For 2010, the Company recognized a minimum expense of $5,760 (2009 – $5,760) in royalty expense. Royalties payable at December 31, 2010 are $13,920 (2009 – $8,160).

c) In the normal course of operations, the Company may be subject to litigation and claims from customers, suppliers, and former employees. Management believes that adequate provisions have been recorded in the accounts where required. Although it is not possible to estimate the extent of potential costs, if any, management believes that the ultimate resolution of such contingencies would not have a material adverse effect on the financial position of the Company.

11. SALES

Substantially all sales are export sales to five distributors of the Company's products. The Company is therefore dependent on those distributors to maintain and expand the volume of product sales to existing and new customers.

12. OTHER INCOME (LOSS)

	2010 **$**	2009 $
Foreign exchange losses	**(27,641)**	(68,047)
Miscellaneous income (loss)	**(2,433)**	12,554
	(30,074)	(55,493)

13. INCOME TAXES

A) NON-CAPITAL LOSSES

The Company has accumulated non-capital losses carried forward for federal income tax purposes of approximately $12,222,300, and for provincial income tax purposes of approximately $12,026,000, the benefit of which has not been reflected in these consolidated financial statements. These losses may be applied against future taxable income within the limitations prescribed by the Income Tax Act and expire as follows:

	Federal $	Alberta $
2015	293,400	293,400
2026	651,500	651,500
2027	2,730,300	2,730,300
2028	5,337,500	5,141,200
2029	1,697,300	1,697,300
2030	1,512,300	1,512,300
Total	12,222,300	12,026,000

B) CAPITAL LOSSES

The Company has accumulated capital losses of approximately $6,807,000, which can be carried forward indefinitely to offset future capital gains.

C) SCIENTIFIC RESEARCH AND EXPERIMENTAL DEVELOPMENT (SR&ED)

The Company has accumulated an SR&ED expenditure pool of approximately $1,468,200, which can be carried forward indefinitely to be applied against future taxable income.

The Company has accumulated SR&ED investment tax credits of approximately $78,700. These credits may be applied against future federal income taxes payable and expire in 2029.

D) TEMPORARY DIFFERENCES

A future income tax asset reflects the net effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's future income tax asset are as follows:

INCOME TAX EFFECT OF DEDUCTIBLE TEMPORARY DIFFERENCES:	**2010 $**	2009 $
Non-capital losses and SR&ED expenditures carried forward	**3,403,000**	3,289,000
Net capital losses carried forward	**851,000**	851,000
SR&ED investment tax credits	**79,000**	–
Undepreciated capital cost for tax purposes in excess of net book value	**818,000**	1,073,000
Deferred revenue recognized for tax purposes	**57,000**	70,000
Employee future benefit expense not recognized for tax purposes	**40,000**	–
Valuation allowance	**(5,248,000)**	(5,283,000)
	–	–

For consolidated financial statement purposes, no future income tax asset has been recorded at December 31, 2010 and 2009 as it is not likely to be realized.

E) INCOME TAX RECONCILIATION

The Company's consolidated income tax position comprises tax benefits and provisions arising from the respective tax positions of its taxable entities. The Company's income tax provision differs from that calculated by applying statutory rates for the following reasons:

	2010 **$**	2009 $
Income taxes (recovery) based on federal and provincial statutory income tax rate of 28% (2009 – 29%)	**140,302**	(20,111)
Net tax effect of expenses that are (deductible) not deductible	**(17,540)**	13,942
Tax effect of current year non-capital losses not recognized	**423,453**	492,219
Tax effect of prior years non capital losses and investment tax credits applied against current taxable income	**(272,536)**	(56,946)
Tax effect relating to property and equipment	**(265,049)**	(360,439)
Tax effect of deferred revenue recognized	**(15,183)**	(14,397)
Tax effect of employee future benefit expense not recognized	**6,553**	–
Tax effect of deductible employee future benefit obligation payments	**–**	(54,268)
	–	–

14. RELATED PARTY TRANSACTIONS

Related party transactions during the years not otherwise disclosed in these consolidated financial statements are as follows:

	2010 **$**	2009 $
Royalties earned by employees and directors	**21,951**	38,699
Amounts payable to employees and directors included in royalties payable	**27,758**	84,581
Convertible debentures owned by officers and directors	**70,000**	70,000
Interest earned in convertible debentures by officers and directors	**5,753**	–
Consulting fees earned by a company controlled by a director	**150,000**	150,000
Consulting fees payable to a company controlled by a director in accounts payable and accrued liabilities	**–**	37,500
Royalties payable to employees and directors converted to common shares	**71,898**	–
Convertible debenture interest payable to officers and directors converted to common shares	**2,953**	–

These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

15. SEGMENTED INFORMATION

a) The Company operates in one industry segment, which is the active ingredient product technology industry. The majority of the revenue is derived from sales in North America. All the assets of the Company, which support the revenues of the Company, are located in Canada. The distribution of revenue by location of customer is as follows:

	2010 **$**	2009 $
United States	**4,109,206**	2,679,371
Other	**1,467,006**	1,652,042
Canada	**424**	38,657
	5,576,636	4,370,070

16. FINANCIAL INSTRUMENTS

a) The Company has designated its financial instruments as follows: cash is classified as held-for-trading, which is measured at fair value; accounts receivable are classified as loans and receivables, which are measured at amortized cost; accounts payable and accrued liabilities, long-term debt, royalties payable, repayable research funding, and convertible debentures are classified as other liabilities and are also measured at amortized cost.

The fair value of accounts receivable, accounts payable, the current portion of long term debt, royalties payable, and repayable research funding approximate their carrying amount due to their short-term nature. The fair value of long-term debt is estimated to approximate its carrying value because the interest rate does not differ significantly from current interest rates for similar types of borrowing arrangements. The liability component of convertible debentures was calculated using a 15% discount rate. Management considers that no events have occurred subsequent to the inception of this financing arrangement that would indicate that fair value differs substantially from carrying value.

The Company accounts for regular-way purchases and sales of financial assets using trade date accounting, and transaction costs on financial instruments are recognized in income in the period.

b) The Company has exposure to credit, liquidity, and market risk as follows:

i) Credit risk:

The Company makes sales to customers that are well-established and well-financed within their respective industries. There is always a risk relating to the financial stability of customers and their ability to pay, but management views this risk as minimal. Approximately 81% of accounts receivable are due from three customers at December 31, 2010 and all accounts receivable are current. The Company mitigates its exposure to credit risk on its cash balances by maintaining its bank accounts with a Canadian Chartered Bank. The Company's maximum exposure to credit risk on its cash and accounts receivable is the carrying value of these items at December 31, 2010, a total of $757,052.

ii) Liquidity risk:

Liquidity risk relates to the risk that the Company will encounter difficulty in meeting its financial obligations. The long-term debt matures in January 2013. It is the intention of the Company that refinancing will be negotiated at that time should it be required. The Company may be exposed to liquidity risks if it is unable to collect its trade accounts receivable balances in a timely manner, which could in turn impact the Company's long-term ability to meet commitments under its current facilities. Royalties are in arrears as they have only been paid partially in cash since the second quarter of 2008 due to the limited financial resources of the Company. In order to manage this liquidity risk, the Company regularly reviews its aged accounts receivable listing to ensure prompt collections. The Company regularly reviews its cash availability; and whenever conditions permit, the excess cash is deposited in short-tem interest bearing

instruments to generate revenue while maintaining liquidity. There is no assurance that the Company will obtain sufficient funding to execute its strategic business plan.

The following are the contractual maturities of the Company's financial liabilities and obligations.

	0 - 1 year $	1 - 3 years $	4 - 5 years $	Total $
Accounts payable and accrued liabilities	862,163			862,163
Long-term debt, including interest	208,613	1,135,148		1,343,761
Royalties payable	378,051			378,051
Convertible debentures including interest	540,000			540,000
Employee future benefit obligation			184,037	184,037
Repayable research funding	12,500	37,500		50,000
Total	2,001,327	1,172,648	184,037	3,358,012

iii) Market risk:

Market risk is comprised of interest rate risk and foreign currency risk. The Company's exposure to market risk is as follows:

(1) Foreign currency risk

Foreign currency risk arises from the fluctuations in foreign exchange rates and the degree of volatility of these rates relative to the Canadian dollar.

The Company is exposed to foreign currency fluctuations because a substantial portion of sales are denominated in U.S. dollars. A one percent change in the Canadian/U.S. dollar exchange rate will impact revenues by approximately $54,500 annually based upon 2010 U.S. dollar sales of $5,450,000. The Company does purchase some materials and services in U.S. dollars and to a very minor extent in Euros. This amount will vary by product sold.

The following table summarizes the impact of a 1% change in the foreign exchange rates of the Canadian dollar against the US dollar (USD) on the financial assets and liabilities of the Company.

	CARRYING AMOUNT (USD)	FOREIGN EXCHANGE RISK (USD)	
		− 1% EARNINGS & EQUITY	+1% EARNINGS & EQUITY
Financial assets			
Accounts receivable	$ 535,729	$ 5,357	$ (5,357)
Financial Liabilities			
Accounts payable and accrued liabilities	$ 46,159	$ (462)	$ 462
Total increase (decrease)		$ 4,895	$ (4,895)

The carrying amount of accounts receivable and accounts payable and accrued liabilities in USD represents the Company's exposure at December 31, 2010.

(2) Interest rate risk

The Company has minimal interest rate risk because its long-term debt is a fixed rate of 5.49%. However, in the event of a default, the rate would increase to 7.49% and result in an increase in the required monthly principal and interest payment by $1,541.

17. LEASE COMMITMENTS

The Company is committed to future annual payments under operating leases for manufacturing facilities and office space as follows:

	$
2011	165,220
2012	4,466

18. CAPITAL DISCLOSURES

The Company considers its capital to be its shareholder deficiency. The Company's objective in managing capital is to ensure a sufficient liquidity position to finance its manufacturing operations, research and development activities, administration and marketing expenses, working capital, and overall capital expenditures, including those associated with patents and trademarks. The Company makes every effort to manage its liquidity to minimize dilution to its shareholders, when possible.

The Company has funded its activities through public offerings and private placements of common shares, royalty offerings, loans, convertible debentures, and grant contributions.

The Company is not subject to externally imposed capital requirements, and the Company's overall strategy with respect to capital risk management remains unchanged from the year ended December 2009.

19. GOVERNMENT ASSISTANCE

The Company was approved for non-repayable funding in the amount of $124,000 from Alberta Ingenuity. During 2010, the Company received $20,750 which was recorded as a reduction of research and development expenses. The Company anticipates receiving an additional amount of $62,000 in 2011 and $41,250 in 2012 under this program.

The Company was approved for non-repayable funding for up to 50% of eligible costs to a maximum of $99,900 under the Growing Forward Product Development program. The Company recognized $39,824 in 2010 under this program with $22,574 recorded as a reduction of research and development expenses, and $17,250 recorded as a reduction of prepaid expenses. An amount of $15,429 was included in accounts receivable at December 31, 2010 with respect to this agreement. The Company anticipates the balance of eligible funding to be received in the first quarter of 2011.

The Company was approved for non-repayable funding in the amount of $50,000 for eligible costs from the Atlantic Canada Opportunities Agency. The Company recorded $39,121 of funding in 2010 as a reduction of research and development expenses and anticipates receiving a further $10,879 in 2011 under this program. An amount of $11,272 was recorded in accounts receivable at December 31, 2010 with respect to this agreement.

The Company was approved for non-repayable funding to a maximum of $21,250 of eligible expenditures under the Novel Crops Initiative program from the Prince Edward Island Department of Agriculture. The Company recorded the amount of $5,925 as a reduction of research and development expenditures under this program. An amount of $5,925 is included in accounts receivable at December 31, 2010 with respect to this agreement. The Company anticipates receiving further funding of up to $5,000 in 2011 and $5,000 in 2012.

The Company was approved for non-repayable funding of $7,055 under the Growing Forward Lean Manufacturing Initiative. The Company recognized $5,823 as a reduction of cost of certain property and equipment, and $1,232 as a reduction of research and development expenditures. The full amount of $7,055 was included in accounts receivable at December 31, 2010.

The Company received a repayable non-interest bearing contribution for research and development expenditures in the amount of $50,000 from Innovation PEI, which is recorded as a repayable research funding liability on the balance sheet. The Company may be eligible for a further contribution of $50,000 in 2011. The repayable research funding is recorded at the amount drawn under the agreement which represents the estimated fair value of the obligation plus the deferred interest benefit. The contribution is repayable quarterly at a rate of one percent of sales revenue subject to a minimum payment of $12,500 per quarter.

The Company is also eligible to claim up to $1,339,625 of eligible research and development expenditures in 2011 and 2012 under the Canadian Agricultural Adaptation Program. All amounts claimed under the program are repayable interest free over eight years beginning in 2013.

20. EARNINGS PER SHARE

	2010	2009
Net income (loss) for the year	**$501,078**	$(69,349)
Interest not incurred on convertible debentures if converted	**41,096**	–
Net income (loss) for the year for diluted earnings per share calculation	**542,174**	(69,349)
Weighted average number of shares outstanding	**53,219,621**	49,577,953
Potential shares to be issued for convertible debentures outstanding	**5,000,000**	–
Diluted shares outstanding	**58,219,621**	49,577,953
Earning per share – basic	**$0.01**	$(0.00)
Earning per share – diluted	**$0.01**	$(0.00)

Outstanding stock options have not been included in the diluted earnings per share calculation for the year ended December 31, 2010 because the options' exercise prices were greater than the average market price of the common shares during the year.

21. SUBSEQUENT EVENTS

Subsequent to year end, the Company's directors exchanged debt obligations totaling $175,000 into 1,590,909 common shares of the Company. The transaction will be recorded in the first quarter of 2011.

Subsequent to year end, the Company received the amount of $56,957 from the Canadian Agriculture Adaptation Program (see note 19).

Investor Information May 2011

DIRECTORS
Edward Taylor, Chairman
Gilles Gagnon, Acting CEO
Donald Oborowsky
Glenn Rourke
John Zupancic

OFFICERS
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David Fielder, M. Sc.
Chief Scientific Officer

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CHANGE OF ADDRESS
Registered Shareholders should notify the Company's Transfer Agent and Registrar at the address set out above.

Beneficial Owners should contact their respective brokerage firm to give notice of change of address.

FINANCIAL CALENDAR
The Company's year-end is December 31. Quarterly reports are mailed in May, August, and November.

ANNUAL GENERAL MEETING OF SHAREHOLDERS
The annual general meeting of shareholders will be held on:

June 23, 2011 at 10am MDT

Location:
4th floor Enterprise Square
10230 Jasper Avenue
Edmonton, Alberta T5J 4P6

EQUAL OPPORTUNITY EMPLOYER
Ceapro Inc. is an equal opportunity employer and seeks to attract and retain the best-qualified people regardless of race, religion, national origin, gender, sexual orientation, age, or disability.

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